

### PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. (A Component Unit of the State of Delaware) Clayton, Delaware

AUDITED FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2006

### PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006 TABLE OF CONTENTS

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### STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS

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### INDEPENDENT AUDITOR'S REPORT

TO THE SCHOOL BOARD MEMBERS
PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
Clayton, Delaware

We have audited the accompanying financial statements of the governmental activities and the general fund of Providence Creek Academy Charter School, Inc. (the "School") (a component unit of the State of Delaware) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The School has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on page 18 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

R. Thomas Wagner, Jr., CFE, CGFM, CICA Auditor of Accounts Office of Auditor of Accounts

August 18, 2006



### STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

PHONE: (302) 739-4241 FAX: (302) 739-2723

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO THE SCHOOL BOARD MEMBERS PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. Clayton, Delaware

We have audited the financial statements of the governmental activities and the general fund of Providence Creek Academy Charter School, Inc. (the "School") as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relative low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

We also noted certain additional matters that we reported to management of the School in a separate letter dated August 18, 2006.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School's management, School Board Members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, and Department of Finance and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002 (d), this report is a public record and its distribution is not limited.

R. Thomas Wagner, Jr., CFE, CGFM, CICA Auditor of Accounts Office of Auditor of Accounts

August 18, 2006

### PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. STATEMENT OF NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>ASSETS</u>	GOVERNMENTAL ACTIVITIES		
CUIDDENTE AGGETO			
CURRENT ASSETS			
Cash and Cash Equivalents Receivables	\$	396,376	
Delaware School Districts		10.006	
Governments – Federal through State		18,026	
Other		2,198	
TOTAL CURRENT ASSETS		926	
TOTAL CORRENT ASSETS		417,526	
NONCURRENT ASSETS			
Capital Assets, Net of Depreciation		175 202	
TOTAL ASSETS		175,392 592,918	
101/11/1001/10		392,918	
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable		44,731	
Accrued Salaries and Related Costs		314,562	
Deferred Revenue		1,594	
Accrued Interest – Arbitration Settlement		11,000	
Arbitration Settlement		55,000	
TOTAL CURRENT LIABILITIES		426,887	
	· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·	
NONCURRENT LIABILITIES			
Arbitration Settlement		220,000	
Compensated Absences		100,579	
TOTAL NONCURRENT LIABILITIES		320,579	
	•		
TOTAL LIABILITIES		747,466	
NET ASSETS (DEFICIT)			
Unrestricted (Deficit)		(154,548)	
TOTAL NET ASSETS (DEFICIT)	\$	(154,548)	

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	TOTAL GOVERNMENTAL ACTIVITIES	\$ (2,732,872)	(1,213,787) (493,707)	(6,960)	\$ (4,431,778)	\$ 634,337 3,595,860 16,215 92,899 4,339,311 (92,467)	
UES	CAPITAL GRANTS AND CONTRIBUTIONS	· •		1 1	€ <del>&gt;</del> }		
PROGRAM REVENUES	OPERATING GRANTS AND CONTRIBUTIONS	\$ 210,129		76,048	\$ 286,177	GENERAL REVENUES  Charges to School Districts  State Aid not Restricted to Specific Purposes  Earnings on Cash and Cash Equivalents  Miscellaneous Revenues  TOTAL GENERAL REVENUES  CHANGE IN NET ASSETS	
	CHARGES FOR SERVICES	∽	1 1	134,443	\$ 174,340	ERAL REVENUES Charges to School Districts State Aid not Restricted to Specific Purposes Earnings on Cash and Cash Equivalents Miscellaneous Revenues TOTAL GENERAL REVENUES CHANGE IN NET ASSETS	
	EXPENSES	\$ (2,943,000)	s (1,213,787) (493,707)	(217,451) (24,349)	\$ (4,892,295)	GENERAL REVENUES Charges to School I State Aid not Restri Earnings on Cash au Miscellaneous Reve TOTAL GEN CHANGE IN	TALL TANGET
		GOVERNMENTAL ACTIVITIES Instructional Services Supporting Services:	Operation and Maintenance of Facilities Transportation	School Lunch Services Before/After Care and Summer Camp	TOTAL CHARTER SCHOOL	•	

NET ASSETS (DEFICIT) AT END OF YEAR

### PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. BALANCE SHEET – GOVERNMENTAL FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>ASSETS</u>		GENERAL FUND		
Cash and Cash Equivalents Receivables Delaware School Districts Governments – Federal through State Other TOTAL ASSETS	\$	396,376 18,026 2,198 926 417,526		
LIABILITIES				
Accounts Payable Accrued Salaries and Related Costs Unearned Revenue Accrued Interest – Arbitration Settlement Matured Debt – Arbitration Settlement TOTAL LIABILITIES	\$	44,731 314,562 1,594 11,000 27,500 399,387		
FUND BALANCES				
Reserved for Encumbrances Unreserved TOTAL FUND BALANCES (DEFICIT)		9,941 8,198 18,139		
TOTAL LIABILITIES AND FUND BALANCES	\$	417,526		

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

### AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Total Fund Balances – Governmental Funds	\$ 18,139
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$386,997 and the related accumulated depreciation is \$211,605.	175,392
Long-term debt liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(247,500)
Long-term compensated absences liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	 (100,579)
TOTAL NET ASSETS (DEFICIT) – GOVERNMENTAL ACTIVITIES	\$ (154,548)

### PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND FOR FISCAL YEAR ENDED JUNE 30, 2006

	GENERAL FUND		
REVENUES State Support Federal Support Charges to School Districts School Lunch Services – Charges for Services School Lunch Services - Grants Earnings on Cash and Cash Equivalents Miscellaneous Revenues Before/After Care and Summer Camp TOTAL REVENUES		3,595,860 210,129 634,337 134,443 76,048 16,215 179,097 39,897 4,886,026	
EXPENDITURES Current Instructional Services Supporting Services: Operation and Maintenance of Facilities Transportation School Lunch Services Before/After Care and Summer Camp TOTAL EXPENDITURES  NET CHANGE IN FUND BALANCE		2,774,897 1,241,287 493,707 217,451 24,349 4,751,691 134,335	
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR		(116,196)	
FUND BALANCE (DEFICIT) AT END OF YEAR	\$	18,139	

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2006

### AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Net Change in Fund Balance – Governmental Fund	\$ 134,335
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial individual cost of more than \$15,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation Expense	(67,525)
Governmental funds report lease deposits as expenditures. However, in the statement of activities, lease deposits are capitalized as non-current assets until the lease expires, at which time the amount is reported as lease expense.	(86,198)
Governmental funds report the matured portion of general long term debt as a current liability. The amount had already been recorded as a current liability on the statement of net assets in the prior year.	27,500
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(100,579)
CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$ (92,467)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Providence Creek Academy Charter School, Inc. (the "School") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

### Reporting Entity

The School was founded in 2002, and was established to provide students with an education focused on linkages among academics, technology, and careers. The School is considered to be a component unit of the State of Delaware. A component unit, although a legally separate entity, is in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all activities of the School.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include charges to students who purchase, use, or directly benefit from goods and services provided and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues properly excluded from program revenues are reported as general revenues.

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The School reports only one fund which is the general fund (a governmental fund type).

### Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. Encumbrances at June 30, 2006 were \$9,941.

### Cash And Cash Equivalents

Except for the petty cash and Fine Arts Department cash accounts, cash and cash equivalents of the School are controlled by the State Treasurer's Office in Dover, Delaware. The petty cash and Fine Arts Department cash accounts are controlled by the School.

### Receivables

All receivables are considered fully collectible by management. No allowance for bad debt is deemed necessary.

### Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial individual cost of more than \$15,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

Furniture and equipment of the School are depreciated using the straight-line method over the estimated lives of the assets, which range from five to ten years.

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### Compensated Absences

Vacation and sick pay plus related payroll taxes are accrued when earned in the government-wide financial statements. The liability for these amounts is reported in the governmental fund as accrued as a result of employees' eligibility for retirement. At June 30, 2006, no employees were eligible for retirement.

### Vacation

Twelve-month employees can accumulate up to one half of the vacation days earned that year. Any excess days are dropped as of July 1<sup>st</sup> of each year. Employees are paid for one half of the accumulated unused vacation upon retirement at the current rate of pay.

### Sick Leave

Sick leave allowances are as follows: Ten days for ten-month employees, 11 days for 11-month employees, and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is paid out at one half of the accumulated sick days up to 90 days upon retirement at the current rate of pay.

### Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. No such reservations existed at June 30, 2006.

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### NOTE B - CASH AND CASH EQUIVALENTS

At June 30, 2006, the School has a cash and cash equivalent balance of \$396,376. Of that amount, \$393,195 is part of an investment pool controlled by the State Treasurer's Office in Dover, Delaware and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

### NOTE B - CASH AND CASH EQUIVALENTS - CONTINUED

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

The petty cash and Fine Arts Department accounts are in the custody of School officials. The book and bank balances of these funds were \$3,181 and \$3,200, respectively. The bank balance of cash deposits is insured by the Federal Deposit Insurance Corporation (FDIC) and therefore, there is no custodial credit risk for these cash deposits.

### NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 is as follows:

	BEGINNING BALANCES		INCREASES		DECREASES		ENDING BALANCES	
Capital Assets Being Depreciated: Furniture and Equipment	\$	386,997	\$	<del></del>	\$	-	\$	386,997
Less Accumulated Depreciation: Furniture and Equipment		(144,080)_		(67,525)	\$			(211,605)
Total Capital Assets Being Depreciated, Net	\$	242,917	\$	(67,525)	\$	***	\$	175,392

Depreciation expense is \$67,525 for the year ended June 30, 2006, and is included in instructional services in the statement of activities.

#### NOTE D - ARBITRATION SETTLEMENT

The School settled a dispute with its former management company over fees and costs associated with the start-up of the School. The School will pay \$275,000 plus four percent interest over ten years for equipment, computers, furnishings, etc. provided to the School. Annual debt service requirements to maturity is as follows:

YEAR ENDING JUNE 30	PRINCIPAL IN		TEREST	 TOTAL	
2007	\$	55,000	\$	20,900	\$ 75,900
2008		27,500		8,800	36,300
2009		27,500		7,700	35,200
2010		27,500		6,600	34,100
2011		27,500		5,500	33,000
2012-2015		110,000		11,000	121,000
TOTAL	\$	275,000	\$	60,500	\$ 335,500

Principal and interest for the 2007 annual debt service, \$27,000 and \$11,000 respectively, was due and payable on July 31, 2005. The settlement calls for an additional payment of \$225,000 that will be satisfied by a related party.

### NOTE E - DONATED SPACE

The School leases space under an operating lease from a related party. During fiscal year 2006, the related party donated space in the amount of \$96,293. On the government wide financial statements, this amount is shown net of lease deposits of \$86,198

### NOTE F - RELATED PARTY TRANSACTIONS

The School leases its facilities and certain other expenses from a related party under a lease beginning September 1, 2002, for a five-year term with an option to renew for an additional five-year term. If the renewal option is taken, rent will increase by the lesser of actual increases in pass through charges or five percent of prior year lease.

For the year ended June 30, 2006, rent expense was \$654,696 of which a portion was donated (see Note E above). At June 30, 2006, the approximate minimum future rental payments under this lease is as follows:

	ENDING NE 30	A	MOUNT
	007 008	\$	524,000 87,332
то	TAL	\$	611,332
		,	_15_

### NOTE F - RELATED PARTY TRANSACTIONS - CONTINUED

The School has contracted its student transportation from another related party under a contract beginning September 2002, for a three-year term with two one-year options to renew. The School paid \$492,000 for these services for the year ended June 30, 2006. The future annual contract amount is \$492,000.

### NOTE G - PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 15.02% for fiscal 2006 of the State's share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute three percent of salary in excess of \$6,000 per share up to social security maximum and three percent for any salary above social security maximum. Total pension cost of \$241,485 (State share), \$15,729 (local share) and \$6,969 (covered by Federal grant funds) is included in the financial statements. Pension costs accrued at June 30, 2006, were approximately \$32,800.

Certain significant plan provisions follow:

### Early Retirement:

- a. 15 Years Service Age 55
- b. 25 Years Service Any Age

### Service Retirement:

- a. 15 Years Service Age 60
- b. 30 Years Service Any Age
- c. 5 Years Service Age 62

### Disability Retirement:

Five Years Service and Proof of Disability.

### Vested Pension:

An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or calling 1-800-722-7300.

### NOTE H - COMMITMENTS AND CONTIGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

### NOTE H - COMMITMENTS AND CONTIGENCIES - CONTINUED

#### Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

#### NOTE I - LEASING ARRANGEMENTS

The School entered into three operating leases for textbooks, library books, and musical instruments. The leases expired during fiscal year 2006. Lease expense for the fiscal year ended June 30, 2006, was approximately \$41,230.

As described in Note F, the School is committed to certain leasing arrangements with related parties.

### NOTE J - RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses for the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

### NOTE K - RECEIVABLE FROM DELAWARE SCHOOL DISTRICTS

Caesar Rodney School District	\$ 12,630
Smyrna School District	5,396
	\$ 18,026

### NOTE L - SUBSEQUENT EVENT

On August 8, 2006, the School entered into an agreement to purchase approximately 33 acres of land from a related party for \$1,500,000. Closing on the land sale is expected to occur on or before July 1, 2007. For the interim, the School entered into a new lease agreement of the existing facilities effective September 1, 2006 through August 31, 2009. The new lease establishes annual rent at \$550,000 per year and supercedes the existing lease referred to in Note F. In addition, the School has agreed to purchase 12 school buses on August 21, 2006 from another related party in consideration of the School assuming all outstanding debt with respect to the buses.

REQUIRED SUPPLEMENTAL INFORMATION

## PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	BUDGETEI ORIGINAL	D AMOUNTS FINAL	ACTUAL AMOUNTS BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				<del></del>
State Support	\$ 3,569,492	\$ 3,501,231	\$ 3,595,860	\$ 94,629
Federal Support	214,594	215,628	213,109	(2,519)
Charges to School Districts	685,057	659,924	614,155	(45,769)
Earnings on Cash and Cash Equivalents	-	~	16,215	16,215
Miscellaneous Revenues	-	-	82,805	82,805
School Lunch Services	-	-	223,790	223,790
Before/After Care and Summer Camp	-	-	40,640	40,640
TOTAL REVENUES	4,469,143	4,376,783	4,786,574	409,791
EXPENDITURES				
Current:	·			
Advertising	13,000	13,000	12,118	882
Before/After Care and Summer Camp	15,000	15,000	24,349	(24,349)
Communications	14,160	14,160	9,118	5,042
Contracted Services	215,148	219,689	328,402	(108,713)
Employment Costs	743,542	693,938	698,334	(4,396)
Insurance	20,000	20,000	20,181	(181)
Land/Building/Facilities	524,000	524,000	523,992	(181)
Miscellaneous	54,811	55,811	69,272	=
Public Utility Services	83,000	83,000	•	(13,461)
Repairs and Maintenance		· · · · · · · · · · · · · · · · · · ·	84,273	(1,273)
Salaries	16,279	16,279	14,578	1,701
School Lunch Services	1,836,625	1,771,818	1,903,651	(131,833)
	111.052	100.154	217,451	(217,451)
Supplies and Materials	111,052 494,000	122,154	203,454	(81,300)
Transportation – Buses Travel	494,000	494,000	493,845	155
Tuition Subsidies	1,500	5,913	5,913	1.250
TOTAL EXPENDITURES	4,127,117	5,669	4,419	1,250
TOTAL EXPENDITURES	4,12/,11/	4,039,431	4,613,350	(573,919)
NET CHANGE IN FUND BALANCE	\$ 342,026	\$ 337,352	173,224	\$ (164,128)
Fund Balance at Beginning of Year			223,152	
Fund Balance at End of Year			\$ 396,376	

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The School's budget is prepared on the cash basis of accounting. The amount reported as "net change in fund balance" on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the "net change in fund balance" reported in the Statement of Revenues, Expenditures and Changes in Fund Balance — Governmental Fund" on page 9.

That statement is prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The following reconciles the net change in fund balance per the budgetary basis to the net change in fund balance per the modified accrual basis.

BASIS	\$ 134,335
NET CHANGE IN FUND BALANCE, MODIFIED ACCRUAL	
Net Increase in Liabilities	 (6,475)
Net Decrease in Prepaid Assets	(34,403)
Net Increase in Receivables	1,989
NET CHANGE IN FUND BALANCE, BUDGETARY BASIS	\$ 173,224

OTHER INFORMATION

### PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

### SUMMARY OF AUDITOR'S RESULTS

- 1. The auditor's report expresses an unqualified opinion on the basic financial statements of Providence Creek Academy Charter School, Inc.
- 2. One reportable condition was identified during the audit of the basic financial statements of Providence Creek Academy Charter School, Inc.
- 3. No instances of noncompliance material to the financial statements of Providence Creek Academy Charter School, Inc. were disclosed during the audit.

#### FINDINGS – COMPLIANCE REPORTING

None

### FINDINGS - FINANCIAL REPORTING

### FINDING 2005-02

Providence Creek Academy Charter School, Inc. has insufficient policies and procedures regarding the recording, processing, summarizing, and reporting of cash, payroll, and related liabilities. In addition, the School does not have written policies and procedures for originating, authorizing, preparing, and approving input transactions.

According to the State of Delaware *Budget and Accounting Manual*, Chapter I, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control." Additionally, the Manual states, "Internal control provides management with reasonable assurance that its policies and procedures are implemented and consistently followed to ensure efficient and effective organizational operation." Further, the Manual states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met."

By not maintaining sufficient policies and procedures for financial transactions, the School has no method of ensuring efficient and effective organizational operation.

### RECOMMENDATION:

Providence Creek Academy Charter School, Inc. develop and implement sufficient written policies and procedures governing the receipt, custody, processing, recording and reporting of cash, payroll, and related liabilities. Providence Creek Academy Charter School, Inc. develop and implement sufficient written policies and procedures for originating, authorizing, preparing, and approving input transactions. The policies and procedures should incorporate information such as:

- Sufficient segregation of duties or mitigating controls.
- Specific job functions for each employee, including preparation and review.
- Retainage of support documentation.

### PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC. SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

### FINDINGS - FINANCIAL REPORTING - CONTINUED

### MANAGEMENT RESPONSE:

Providence Creek Academy Charter School, Inc. plans to work with other charter schools to develop and implement sufficient written policies and procedures governing the receipt, custody, processing, recording and reporting of cash, payroll and related liabilities.

### STATUS:

Not implemented. There were no changes made to the existing policies and procedures and no additional policies and procedures were approved.